



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

May 23, 2005

Limited Internal Control and Compliance Review Management Report

Robert E. Bass, Jr., State Personnel Director
Mississippi State Personnel Board
301 North Lamar Street, Suite 100
Jackson, Mississippi 39201-1495

Dear Mr. Bass:

Enclosed for your review are the limited internal control and compliance review findings for the Mississippi State Personnel Board for the Fiscal Year 2004. In these findings, the Auditor's Office recommends the Mississippi State Personnel Board:

1. Strengthen controls over disbursements;
2. Ensure services rendered are supported by a written agreement;
3. Strengthen controls over employee leave;
4. Ensure purchase orders are prepared and approved prior to the ordering of goods or services; and
5. Ensure state travel laws and regulations are followed.

Please review the recommendations and submit a plan to implement them by June 15, 2005. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management and Members of the Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi State Personnel Board to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi State Personnel Board throughout the review. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Phil Bryant", is written over the word "Sincerely,". The signature is fluid and cursive.

Phil Bryant
State Auditor

Enclosures

The Office of the State Auditor has completed its limited internal control and compliance review of the Mississippi State Personnel Board for the year ended June 30, 2004. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Judy Bounds, Jessica Short, and Trisi Baskin.

The fieldwork for review procedures and tests was completed on March 28, 2005. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. Also, our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

In performing our review, we noted matters involving the internal control over financial reporting and instances of noncompliance that require the attention of management. These matters are noted under the headings **IMMATERIAL WEAKNESSES IN INTERNAL CONTROLS** and **INSTANCES OF NONCOMPLIANCE WITH STATE LAWS**.

IMMATERIAL WEAKNESSES IN INTERNAL CONTROLS

Controls over Disbursements Should Be Strengthened

Finding:

During our review of the authorized approval levels over transactions in the Statewide Automated Accounting System (SAAS) at the Mississippi State Personnel Board, we noted the Director of Accounting and Finance had input capability and all agency levels of approval over disbursements within SAAS. This employee also was an authorized signatory for payment vouchers, travel vouchers, and purchase orders. The Director of Accounting and Finance was added as an authorized signatory in January 2004 when the previous State Personnel Board Director resigned. However, the current State Personnel Board Director was hired in July 2004 and the Director of Accounting and Finance was not removed from the authorized signatory list until February 2005 when the auditors brought this matter to management's attention.

Good internal controls require duties to be properly segregated to prevent both the initiation and authorization of an entire transaction by one individual. Failure to adequately segregate duties increases the potential for errors or fraud to occur without being detected promptly.

Recommendation:

We recommend the Mississippi State Personnel Board continue to strengthen internal controls over disbursements by ensuring proper segregation of duties.

Services Rendered Should Be Supported by Written Agreements

Finding:

During our review of 20 contractual service expenditures at the Mississippi State Personnel Board, we noted two instances in which payments totaling approximately \$8,300 were made to individuals for clerical and legal services which were rendered without a written contractual agreement signed by both parties. Good internal controls require execution of a written contractual agreement binding the parties in costs and duties. Without a written contract executed and signed by both parties, duties and costs to the parties involved are not adequately documented and could result in costs being incurred or duties being performed that are not agreed upon.

Recommendation:

We recommend the Mississippi State Personnel Board obtain written contractual agreements signed by both parties to document services to be performed by individuals and/or organizations. The contracts should document agreed upon costs, as well as duties to be performed.

Controls over Employee Leave Should Be Strengthened

Finding:

The Mississippi State Personnel Board used the practice of recording employees' personal and major medical leave taken in the Statewide Payroll and Human Resource System (SPAHRs) from data on the employees' leave slips. During testwork performed on ten employee's personal, major medical, and compensatory leave, we noted the following:

- Three instances in which employees' leave slips did not agree with leave recorded in SPAHRs; and,
- Compensatory time accrued and compensatory leave taken did not appear to be recorded in SPAHRs.

Good internal controls require all employee leave be recorded in SPAHRs. Good internal controls also include supervisory review of leave records to ensure accuracy. Without the proper recording and review of leave records, errors and omissions could occur which result in the misstatement of employee leave balances.

Recommendation:

We recommend the Mississippi State Personnel Board strengthen procedures to ensure employee leave balances recorded in SPAHRs are reviewed by supervisory personnel for accuracy and completeness. We further recommend that employee compensatory time accrued and compensatory leave taken be recorded in SPAHRs.

INSTANCES OF NONCOMPLIANCE WITH STATE LAWS

Purchase Orders Should Be Prepared and Approved Prior to Ordering Goods and Services

Finding:

During contractual services expenditure testwork at the Mississippi State Personnel Board, we noted three instances out of 20 items tested which required purchase orders, or 15 percent, in which purchase orders were prepared after the goods or services were ordered. Section 7-7-23, Miss. Code Ann. (1972), states that purchases of equipment, supplies, materials, or services of whatever kind or nature may be made only by written purchase orders duly signed by the official authorized to do so. It further states that it shall be the duty of the proper official in each department or agency to forward a copy of each purchase order to the Department of Finance and Administration (DFA) on the same day the said order is issued. Failure to comply impedes the ability of the board and DFA to maintain budgetary controls over the agency's expenditures.

Recommendation:

We recommend the Mississippi State Personnel Board comply with state law by ensuring purchase orders are prepared and approved prior to goods and services being ordered.

State Travel Laws and Regulations Should Be Followed

Finding:

During our review of 20 travel expenditures at the Mississippi State Personnel Board, we noted the following:

- Two instances in which there was no documentation maintained of prior written approval by the department head for the employee to attend a convention and a meeting; and
- One instance in which the airline travel return date was extended for employee vacation time; however, documentation was not maintained to support that additional travel costs were not incurred.

Section 25-1-83, Miss. Code Ann. (1972), provides no funds will be used in defraying the expenses of any state employee, other than an officer or department head, in attending a convention, association, or meeting, unless such employee is duly authorized by prior approval in writing of the departmental head or officer in charge of such department, agency, or institution. Section 25-3-41, Miss. Code Ann. (1972), establishes guidelines for travel reimbursement for state employees and provides the Department of Finance and Administration (DFA) will set rules and regulations regarding such travel. Section 106.1 of the travel handbook published by the DFA allows for business travel and vacation/personal leave to be combined when all of the following conditions are met: 1) the primary purpose of the trip is official state business; 2) the employee uses his/her approved leave for the personal part of the trip; 3) the state agency incurs no expenses beyond what it would have incurred had there been no personal travel involved in the trip.

Good internal controls require agency approvals for travel to be adequately documented. Good internal controls and DFA travel regulations also require documentation be maintained to support that the agency did not incur any additional travel costs for extended stays when combining business and personal vacation time. Failure to follow state travel laws and regulations could result in excessive travel costs being claimed and subsequently reimbursed by the agency.

Recommendation:

We recommend the Mississippi State Personnel Board implement procedures to ensure travel is properly authorized and reimbursed in compliance with state travel laws and regulations. We further recommend that documentation which supports no additional travel costs for extended stays be maintained on file at the agency.